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Congress of the United States

House of Representatives

Washington, DC 20515-2107

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The Honorable William J. Clinton
The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am writing to express my deep concern about the plan adopted by the Intelsat "Working Party" to spin off a subsidiary in an attempt to privatize some of Intelsat's assets. Despite the hard work and dedication of all of the U.S. officials involved, this plan does not yet achieve the desired pro-competitive restructuring of Intelsat that has long been the objective of U.S. policy.

I urge the United States to disassociate itself from this spin-off and stand by our competitive principles. Opposing this anticompetitive plan will also put the U.S. in a much better position to take future steps as necessary to prevent Intelsat's subsidiary from distorting the international telecommunications marketplace.

The Intelsat plan is a far cry from the procompetitive objectives originally set forth by the Clinton-Gore Administration and as embodied in legislation offered by House Commerce Committee Chairman Tom Bliley (R-VA) and myself in the Congress. At the beginning of the Intelsat "privatization" negotiation process, the U.S. position had five general tests to be met:

- * there should be no Intelsat ownership of the affiliate;
- * Intelsat signatory ownership should be capped at 20 percent, after a mandatory sell-down of signatory equity;
- * there should be no cap on investment by outside parties, in order to encourage non-signatory investment and independence from Intelsat;
- * there should be an effective waiver of Intelsat's privileges and immunities; and,
- * in broad terms, the affiliate should be truly independent of Intelsat to ensure fair competition between the affiliate and the rest of the participants in the international satellite marketplace.

The Intelsat plan appears to fail on all of these five criteria. Under the Intelsat plan, the spin-off company - known as "INC" - could be owned 100 percent by Intelsat and its signatories, whose ownership shares in INC mirror their shares in Intelsat. At the outset, Intelsat will own 10 percent of INC in some sort of voting trust and the signatories will own the rest, with no ownership cap, no mandatory sell-down, and only an ill-defined "non-binding target" for non-signatory ownership in the future.

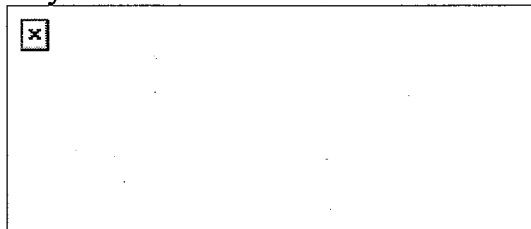
The only real ownership cap is an across-the-board 17 percent cap on what any single investor can own, which effectively will make it impossible for U.S. signatory COMSAT, or for any companies outside of

the signatory "club," to take control of INC and compete freely and fairly in the marketplace. While this cap can be changed in the future, it takes a two-thirds vote of the shareholders to do so during the next three years, when critical management and operating decisions will be made. Compounding this corporate governance problem, five out of the seven people on the INC board will be representatives of signatories and the initial CEO and management team will be chosen by Intelsat and its signatories. These provisions clearly do not lend themselves to ensuring the creation of a truly independent INC.

The plan looks even worse when you consider the assets with which INC will start its business life. INC will evidently receive six Intelsat satellites and their orbital positions, plus two additional Ka-band orbital assignments that Intelsat secured as a treaty organization. Of the six satellites, four are in orbit and have existing traffic and revenue. Two more are about to be launched and Intelsat has apparently pre-sold them to video programmers. INC will also obtain these key assets debt-free, since the debt associated with these satellites reportedly stays with Intelsat. Starting life with these assets acquired below fair market value, with a going business, and with no debt will give INC an anticompetitive advantage over ordinary private companies who must leverage their assets with borrowings and must price their services to cover the market values of their assets and their debt.

Moreover, these satellites and the existing traffic and business commitments for these satellites will be transferred to INC at book value for the hard assets, which is orders of magnitude less than their fair market value. And the existing contracts associated with these satellites will immediately carry with them the same "landing rights" in foreign countries that Intelsat enjoys, while INC's competitors must negotiate and often struggle to obtain market access.

In short I believe that the current Intelsat proposal is anticompetitive and contrary to U.S. interests. The U.S. position -- that INC must be truly independent from Intelsat -- has been frustrated by the plan currently contemplated. We must not let our hopes nor the hard work that the Administration has put into this project induce us to acquiesce to a very bad proposal. Our acceptance of an anti-competitive Intelsat spin-off plan will send the wrong signal and would represent a giant backwards step. I urge you to take whatever steps are necessary to disassociate the United States from this anti-competitive plan.



EJM/cc